



# UNIVERSITY OF THE PUNJAB

B.S. 4 Years Program / Sixth Semester – Spring 2022

Roll No. ....

Paper: Financial Management (Commerce)

Course Code: COMM-306

Time: 3 Hrs. Marks: 60

## THE ANSWERS MUST BE ATTEMPTED ON THE ANSWER SHEET PROVIDED

**Q.1. Answer the following short questions. (6x5=30)**

- a) Long term investment decisions of a business firm
- b) Five C's of credit
- c) Zero base budgeting
- d) Primary vs secondary market
- e) Pro forma financial statements
- f) Time value of money

**Answer the following questions. (3x10=30)**

**Q.2** Actual sales and purchases of December 2021 and January 2022 along with forecast sales and purchases from Feb to April 2022 of Hashim Company are given below:

Sales	Amount	Purchases	Amount
December	\$40000	December	\$30000
January	50000	January	38000
February	60000	February	40000
March	45000	March	20000
April	40000	April	26000

Typically, the company collects 20 percent of its sales in the month of sales, 70 percent in the subsequent month, and 10 percent in the second month after the sale. All sales are on credit basis. Payment of purchases is made in the following month after purchases. General and admin expenses will amount to \$14500 a month, lease payment under long term lease contract will be \$1200 a month, depreciation expenses are \$5000 a month, and miscellaneous expenses will be \$400 a month. A machine will be purchased in the month of March at a cost of \$22000. Cash on hand at February 1<sup>st</sup> is \$6000 and a minimum cash balance of \$5000 should be maintained throughout the cash budget period.

Prepare a monthly cash budget for Hashim Company from February to April.

**Q.3** Wahid Fans Company is considering to review its inventory management policy to minimize its inventory cost. Economic order quantity approach is under consideration for all material purchase orders in future. Annual demand forecast for a chemical costing \$15 per Kg is 24000 Kg. The cost of placing an order is \$450, while the cost of carrying chemical in store is \$5.00 per kg per year.

Determine the Economic Order Quantity for the chemical

**Q.4** Mr Asad has borrowed \$30000 at a 16% annual rate of interest to be repaid over 4 years. The loan is amortized into four equal annual end of year payments.

- a) Calculate the annual end of year loan payment.
- b) Prepare a loan amortization schedule.
- c) Explain why the interest portion of each payment declines with the passage of time.